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Turnaround for Greece Government Finances Starts with Correctly Measuring Debt and Debt Relief

Keynote Presentation

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Turnaround for GREECE: Discoveries

1. Debt is a huge competitive advantage, not a debt mountain.

2. Has no financial statements, not even a balance sheet.

3. Uses single-entry cash-basis accounting systems.

4. Has no turnaround managers.

Turnaround for GREECE: PV of Net Debt

Greece Present Value (PV) of net debt to GDP was 22% of peers and PV of debt to GDP was 60% of peers when correctly calculated using international macroeconomic and accounting rules.

(€, billions; 2013 data except as noted.)

		Greece % of Peers	Greece	Peer Average	Post-Programme Countries: Ireland	Spain	Portugal	Italy
1.	Future Face Value of Debt/GDP		**175%**	**120%**	124%	94%	129%	133%
2.	GDP		€ 182		€ 164	€ 1,023	€ 166	€ 1,560
3.	Future Face Value of Debt		€ 319		€ 203	€ 961	€ 214	€ 2,069
	International macro-economic and accounting rules:							
4.	PV of Debt		€ 124		€ 189	€ 940	€ 185	€ 2,069
5.	PV of Debt/GDP	**60%**	68%	113%	115%	92%	112%	133%
6.	Financial Assets		€ 91		€ 65	€ 292	€ 69	€ 317
7.	Financial Assets/GDP		50%	32%	39%	29%	42%	20%
8.	PV of Net Debt		€ 33		€ 125	€ 647	€ 116	€ 1,752
9.	PV of Net Debt/GDP	**22%**	**18%**	**80%**	76%	63%	70%	112%
10.	PV Impact		€ 195		€ 14	€ 21	€ 29	€ 0
11.	PV Impact/GDP		107%	7%	8%	2%	17%	0%

GREECE PV OF NET DEBT WAS INDEPENDENTLY VERIFIED ON 15 AUGUST 2014.

Note: Future Face Value of Debt is synonymous with face value. Financial Assets data from Eurostat, Financial Balance Sheets 2013 data (accessed on 31 May 2014), except Ireland, Italy, and Spain (2012); Greece Financial Assets data also noted in the IMF, 5th Review for Greece, June 2014, page 51.

Turnaround for GREECE: Debt Service

In 2016, Greece debt service, which is interest expense and principal payments less rebates and deferrals, as a % of GDP is 47% of peers.

	Debt Service % of GDP[1]	IMF Gross Financing Needs % of GDP[2]
1. Greece	6%	19%
2. Ireland	10%	9%
3. Italy	15%	17%
4. Spain	13%	17%
5. Portugal	11%	20%
6. Peer Average	12%	15%
7. Greece % of Peer Average	47%	123%

Notes:
1. Source: Bloomberg, EC, and IMF data. Excludes T-Bills. Greece adjusted for deferred interest and SMP/ANFA rebates.
2. Source: IMF data.

Turnaround for GREECE: Debt Relief

Third Programme: Under the terms of the €86 billion August 2015 third programme, Greece debt relief is €64.4 billion.

Measurement Rules: International accounting rules (IPSAS/IFRS) and international macroeconomic rules (2008 SNA and 2010 ESA) have harmonized principles for measuring debt relief.

Terms: Interest expense is currently approximately 1% with maturities approaching 50 years and grace periods 20 years.

Disbursements to Date: €13 billion in August 2015.

Auditable Model: Auditable excel model documentation can be found at www.MostImportantReform.info.

Turnaround for GREECE: 100-Day Plan

Underlying Assumption: Greece has a 5-star finance ministry.

Milestones	Day 30	Day 60	Day 100
1. **International Accounting Standards (IAS)**	PV of net debt	Change in net worth for major decisions	Preliminary balance sheet
2. **10-Year GGB Borrowing Cost**	6.0%	5.0%	3.0%
3. **Athens Stock Market Value Increase***	15%	25%	40%
4. **GGB New Issues**	-	€2 billion	€3 billion
5. **Better Credit Ratings**	-	B	BB
6. **IMF DSA IAS Precision**	-	PV of net debt	Debt service
7. **ECB Treatment of GGBs**	-	Programme eligible	QE eligible

*Cumulative.

Turnaround for GREECE: Reading

“Greece’s New Agreement with Europe: This Time Different?” Intereconomics. September/October 2015. **Pelagidis, Theodore** and **Kazarian, Paul B.**

“Greece’s Debt Sustainable?” Harvard Business School Case Study. June 2015. **Serafeim, George**

"Greece Owes Less Than Europe Says." Politico. 2 July 2015.
Soll, Jacob (author of “The Reckoning: Financial Accountability and the Rise and Fall of Nations”, Basic Books 2014.)

“Greece Adopts IPSAS!” Public Finance International. May 2015. **Ball, Ian**

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Questions and Answers

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Turnaround for GREECE: Q&A

Question 1:

Why do so many people continue to use a meaningless future face value number for Greece debt?

Summary Answer: Legal reasons of Maastricht Treaty definition, lack of education, and political motivations.

Turnaround for GREECE: Q&A

Question 2:

Do international accounting and international macroeconomic statistics rules provide the same present value of Greece debt?

Summary Answer: Yes. Numbers will be very close if not the same when the rules and principles are correctly followed.

Turnaround for GREECE: Q&A

Question 3:

Did you say the Greece government does not even have a balance sheet and still uses single entry cash-basis accounting systems?

Summary Answer: Correct. What is called a balance sheet is nowhere near a real balance sheet.

Turnaround for GREECE: Q&A

Question 4:
What can we do to help the government start the turnaround?

Summary Answer: You can help starting now by asking Greece government and political officials one question. Ask: what is Greece present value of net debt as a % of GDP compared to other programme countries?

Turnaround for GREECE: Q&A

Question 5:

Are creditors not using present value of net debt in order to avoid accounting for losses?

Summary Answer: Under international accounting standards, the EFSF, ESM, and IMF loans have been properly structured to avoid losses upon origination. The losses excuse often used to place blame where it does not belong.

Turnaround for GREECE: Q&A

Question 6:

Are you saying that if the Greece government reported the correct debt number it would help?

Summary Answer: Massive help and absolutely essential. Greece is a turnaround. Accurate numbers and a 5-star finance ministry are the only way to start.

Question: What was the present value (PV) of Greece government net debt as a percentage of GDP relative to peers?

Answer: 22%